

AR05

✓ file

AHED MUSIC CORPORATION LIMITED

ANNUAL REPORT

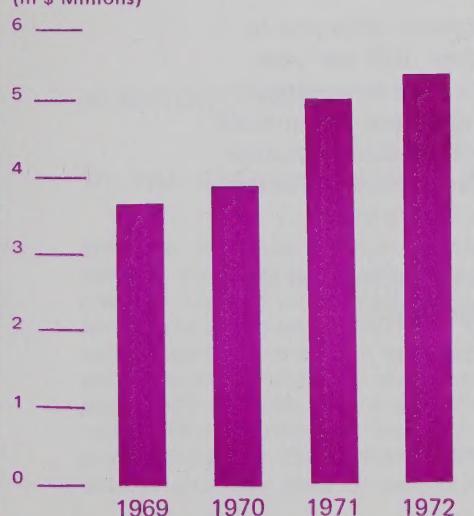
1972



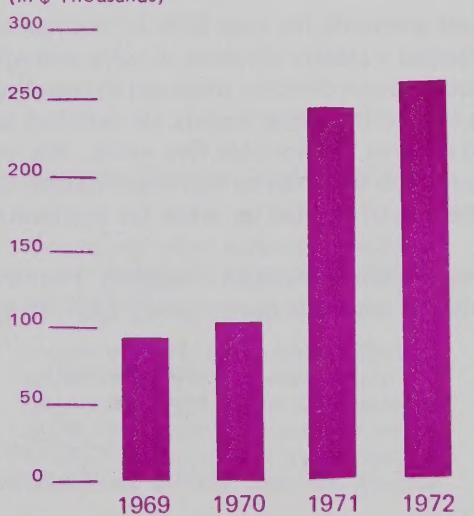
HIGHLIGHTS OF OPERATIONS

Years ended November 30	1972	1971	1970	1969
Gross revenue	\$5,305,994	\$5,010,546	\$3,917,297	\$3,658,168
Profit before income taxes	344,366	345,927	194,883	153,910
Income taxes	83,700	103,570	93,422	63,815
Net profit	260,666	242,357	101,461	90,095
Total assets	3,498,069	3,242,645	2,500,083	2,069,348
Shareholders' equity	1,844,380	1,508,114	1,235,357	1,133,896
Net return on shareholders' equity	15.6%	17.7%	8.6%	11.2%
Shares outstanding	826,500	807,600	800,000	800,000
Net profit per share	31.9¢	30.0¢	12.7¢	11.2¢

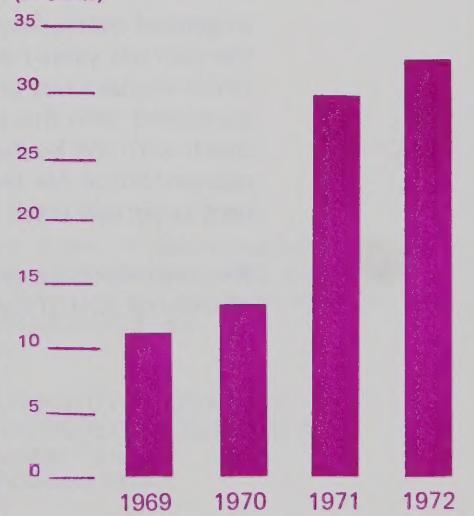
GROSS REVENUE
(in \$ Millions)



NET INCOME
(in \$ Thousands)



NET EARNINGS PER SHARE
(in Cents)



PRESIDENT'S REPORT 1972

While 1972 has not been a great year for your company, it has been a good year. It has been a good year because without even one international top ten recording, artist or song, we have been able to improve by 8% on last year's peak earnings. Further, because of changes in product lines during the year and unexpected resistance in establishing our U.S. targets, sales only increased 5.9% over last year. Total net sales for 1972 were \$5,305,994 compared with \$5,010,546 in 1971. Net profits were \$260,666 in 1972 or 31.9¢ per share, or 7.6% above 1971 profits of \$242,357 or 30¢ per share.

Recording, management and publishing revenues were not as dynamic as we had anticipated and although we showed respectable chart action with ONE MORE CHANCE — Ocean, I AM THE PREACHER — Tony Kingston, COME & JOIN US — The Dublin Corporation, GOIN' DOWN ON THE ROAD TO L.A. — Black & Ward, and STAY WITH ME — Blue Mink, none became an international hit. However, our artist-writer roster is expanding to the point where we are not dependent upon one act to assure above average growth in profits. The main strength of our roster presently consists of ROGER COOK, BLUE MINK, CHRISTINE HOLMES, PARRISH & GURVITZ, BILL AMESBURY and BLACK & WARD. We and our international affiliates feel that each of these acts has the potential to become totally successful on a world-wide scale.

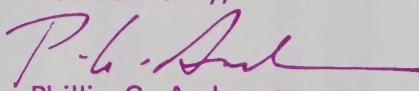
In the area of musical instrument distribution and amplifier manufacture, our expansion into the U.S. was slowed as a result of unexpected competitive conditions. However, as a result of our experience we have made several adjustments in the product line and marketing methods and are confident of better penetration and results in 1973. At the same time, the benefits of these changes will probably not become evident until the final quarter of 1973.

As a result of the age of electronics, a new exciting growth area has developed through the "easy-play" electronic organ. On this organ, within a few weeks, it is possible for even the most clumsy person to play with two fingers, modern or old favorite tunes with a professional sounding rhythm accompaniment and a very full melody. We sense a growing desire on the part of a large segment of the population to become creative participants rather than just spectators during their leisure time. The electronic organ gives people the opportunity of participation and creativity while producing enjoyable music. Consequently, we have commenced a retail division to merchandise organs and pianos. Most locations will be in covered malls. We anticipate opening 10 stores this year.

In general terms, keyboard accounts for over 50% of musical instrument sales and in the past ten years has enjoyed a steady increase in sales averaging over 10% per year. While we have not previously been directly involved in retailing, we have been closely associated with this area in running departments for retailers and have kept in constant touch with the keyboard market for the past five years. We have negotiated exclusive representation for two key lines in Ontario, namely, Kimball and Gulbranson. We expect keyboard retail to be one of our better areas for expansion in future years.

We continue to be grateful for the continuous support from the shareholders and employees of AHED and wish to take this opportunity again to say thank you.

Yours sincerely,


Phillip G. Anderson

AHED MUSIC CORPORATION LIMITED
and subsidiary companies

**CONSOLIDATED STATEMENTS OF OPERATIONS
AND RETAINED EARNINGS**
for the year ended 30, November 1972

	<u>1972</u>	<u>1971</u>
GROSS REVENUE	<u>\$5,305,994</u>	<u>\$5,010,546</u>
REVENUE BEFORE THE UNDERNOTED EXPENSES	<u>\$2,052,212</u>	<u>\$1,883,674</u>
EXPENSES		
Selling, general and administrative	1,657,167	1,474,380
Depreciation and amortization, note 5	<u>50,679</u>	<u>63,367</u>
	<u>1,707,846</u>	<u>1,537,747</u>
PROFIT BEFORE TAXES	<u>344,366</u>	<u>345,927</u>
Income taxes	<u>83,700</u>	<u>103,570</u>
NET PROFIT FOR THE YEAR	<u>260,666</u>	<u>242,357</u>
Retained earnings, beginning of year	<u>433,913</u>	<u>191,556</u>
RETAINED EARNINGS, END OF YEAR	<u>\$ 694,579</u>	<u>\$ 433,913</u>
EARNINGS PER SHARE	<u>31.9¢</u>	<u>30.0¢</u>

AUDITORS' REPORT

TO THE SHAREHOLDERS OF AHED MUSIC CORPORATION LIMITED

We have examined the consolidated balance sheet of AHED Music Corporation Limited and subsidiary companies as at 30 November 1972 and the consolidated statements of operations and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting

records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Companies as at 30 November 1972 and the results of their operations and the source and application of their funds for the year

then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

**DUNWOODY & COMPANY
CHARTERED ACCOUNTANTS
Toronto, Ontario
19 January 1973.**

AHED MUSIC CORPORATION LIMITED
and subsidiary companies

CONSOLIDATED BALANCE SHEET
as at 30 November 1972

ASSETS	1972	1971
CURRENT		
Cash	\$ 150,334	\$ 51,548
Accounts receivable	1,584,032	1,372,163
Inventories, at lower of cost and net realizable value	1,442,784	1,544,873
Prepaid expenses and deposits	<u>31,834</u>	<u>38,218</u>
	<u>3,208,984</u>	<u>3,006,802</u>
FIXED, at cost		
Machinery and equipment	374,442	347,174
Office equipment	55,319	47,431
Automotive equipment	39,127	23,782
Leasehold improvements	<u>19,861</u>	<u>14,144</u>
	<u>488,749</u>	<u>432,531</u>
Accumulated depreciation	<u>309,573</u>	<u>270,868</u>
	<u>179,176</u>	<u>161,663</u>
OTHER, at cost		
Deferred development costs	40,024	9,000
Goodwill and trade marks	29,653	29,468
Cost of public financing less portion amortized	14,300	16,683
Incorporation expenses	7,337	1,725
Excess of cost of shares in subsidiary companies over equity value at dates of acquisition	<u>17,304</u>	<u>17,304</u>
Patents less portion amortized	<u>1,291</u>	<u>—</u>
	<u>109,909</u>	<u>74,180</u>
	<u>\$3,498,069</u>	<u>\$3,242,645</u>

Approved on behalf of the Board:

P. G. Anderson, Director

W. R. Gilliland, Director



LIABILITIES

CURRENT	1972	1971
Bank indebtedness, note 2	\$ 150,000	\$ 854,672
Accounts payable	671,436	676,109
Taxes withheld	53,802	42,627
Long term debt due within one year	75,000	17,968
Income taxes	65,951	103,742
	<u>1,016,189</u>	<u>1,695,118</u>
LONG TERM DEBT, note 3	<u>637,500</u>	<u>39,413</u>
	<u><u>1,653,689</u></u>	<u><u>1,734,531</u></u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL

Authorized		
1,500,000 Shares without par value		
Issued and fully paid, note 4		
826,500 Shares (1971 - 807,600 shares)	1,149,801	1,074,201

RETAINED EARNINGS

RETAINED EARNINGS	694,579	433,913
	<u>1,844,380</u>	<u>1,508,114</u>
	<u><u>\$3,498,069</u></u>	<u><u>\$3,242,645</u></u>

Note 5 - Statutory information

Note 6 - Rates of exchange

Note 7 - Commitment

See accompanying notes to the financial statements

AHED MUSIC CORPORATION LIMITED
and subsidiary companies

**CONSOLIDATED STATEMENT OF SOURCE
AND APPLICATION OF FUNDS**
for the year ended 30 November 1972

SOURCE OF FUNDS	<u>1972</u>	<u>1971</u>
Net profit for the year	\$ 260,666	\$ 242,357
Expenses not requiring an outlay of funds	<u>50,679</u>	<u>63,367</u>
Depreciation and amortization		
FUNDS PROVIDED FROM OPERATIONS	311,345	305,724
Shares issued for cash	<u>75,600</u>	<u>30,400</u>
Bank long term loan (net)	<u>613,868</u>	<u>24,800</u>
	<u>1,000,813</u>	<u>360,924</u>
APPLICATION OF FUNDS		
Purchase of Fixed assets (net)	<u>56,728</u>	<u>81,090</u>
Payment of long term debt (net)	<u>15,781</u>	<u>37,696</u>
Reduction of deferred income taxes	<u>—</u>	<u>4,477</u>
Deferred development costs	<u>40,024</u>	<u>9,000</u>
Incorporation expenses	<u>5,612</u>	<u>—</u>
Other	<u>1,557</u>	<u>—</u>
	<u>119,702</u>	<u>132,263</u>
INCREASE IN WORKING CAPITAL	881,111	228,661
Working capital, beginning of year	<u>1,311,684</u>	<u>1,083,023</u>
WORKING CAPITAL, END OF YEAR	<u>\$2,192,795</u>	<u>\$1,311,684</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at 30 November 1972

**1. PRINCIPLES OF
CONSOLIDATION**

The consolidated financial statements include the accounts of the company and all of its subsidiaries, all of which are wholly-owned: Arc Sound Co. Limited, Bay Music Co. Limited, AHED National Franchises Limited, Jim Blackley's Drum Village Limited, Arc Records Limited and AHED International Limited. During the year Arc Sound Co. Limited was formed by the amalgamation of Arc Sound Limited, Canint Music Corporation Limited and Precision Record Productions Limited.

2. Book debts, manufacturing inventories and the machinery and equipment of the AHED companies are pledged as security for bank indebtedness together with floating charge debentures to the aggregate amount of \$1,800,000.

3. LONG TERM DEBT

	<u>1972</u>	<u>1971</u>
Bank — special term loan, secured, note 2 repayable \$6,250 monthly, plus interest	\$712,500	\$41,600
Directors' and shareholders' loans	<u>—</u>	<u>12,556</u>
Other	<u>—</u>	<u>3,225</u>
	<u>712,500</u>	<u>57,381</u>
Current portion	<u>75,000</u>	<u>17,968</u>
	<u>\$637,500</u>	<u>\$39,413</u>

4. SHARE CAPITAL

A total of 18,900 shares were issued for cash to employees at \$4 per share during the year under an Employee Stock Option Plan. There are 13,500 common shares unissued under the plan which expires 30 July, 1974. A further 25,000 common shares were reserved for issuance from treasury under the terms of a proposed Employee Stock Option Plan.

6. RATES OF EXCHANGE

Amounts in foreign currencies were converted into Canadian currency at the rates of exchange in effect at the end of the financial year.

5. STATUTORY INFORMATION

Amortization of intangible assets for the year amounted to \$11,464. Interest on long term debt for the year amounted to \$46,180. The aggregate direct remuneration paid by the companies to the directors and senior officers (as defined by the Business Corporations Act of Ontario) for the year amounted to \$186,783.

7. COMMITMENT

The company has agreed in principle to acquire the assets and undertakings of Cascade Music Centres as of Nov. 1, 1972. The transaction has not been completed.

WHAT WE DO . . .

Arc Record Distributors

Creation and distribution, through high-traffic stores, of impulse-priced popular music concept packages of long play records and tapes.

Arc Musical Instruments

Distribution of popular-styled musical instruments like guitars, banjos, music amplifiers and PA systems, drums, ukuleles and musical accessories to a large variety of assorted retail outlets. Operations now being extended to the United States.

Precision Record Productions

Manufacture of phonograph records for Arc Record Distributors and custom accounts.

GBX Electronics

Manufacture and distribution of solid-state professional music amplifiers and public address systems through selected franchise music retailers.

Arc Recording & Talent Management

Selection and development of recording artists, music writers and the business management of their affairs.

AHED International & Global Talent Management

The international development, management and direction of recording artists and music writers.

Cascade Music Stores

The retailing of keyboard products, namely, organs and pianos.

